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IN THE
Supreme Court of the United States

CSU, L.L.C.,

Petitioner,

v.

XEROX CORPORATION,

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

SUPPLEMENTAL BRIEF FOR PETITIONER

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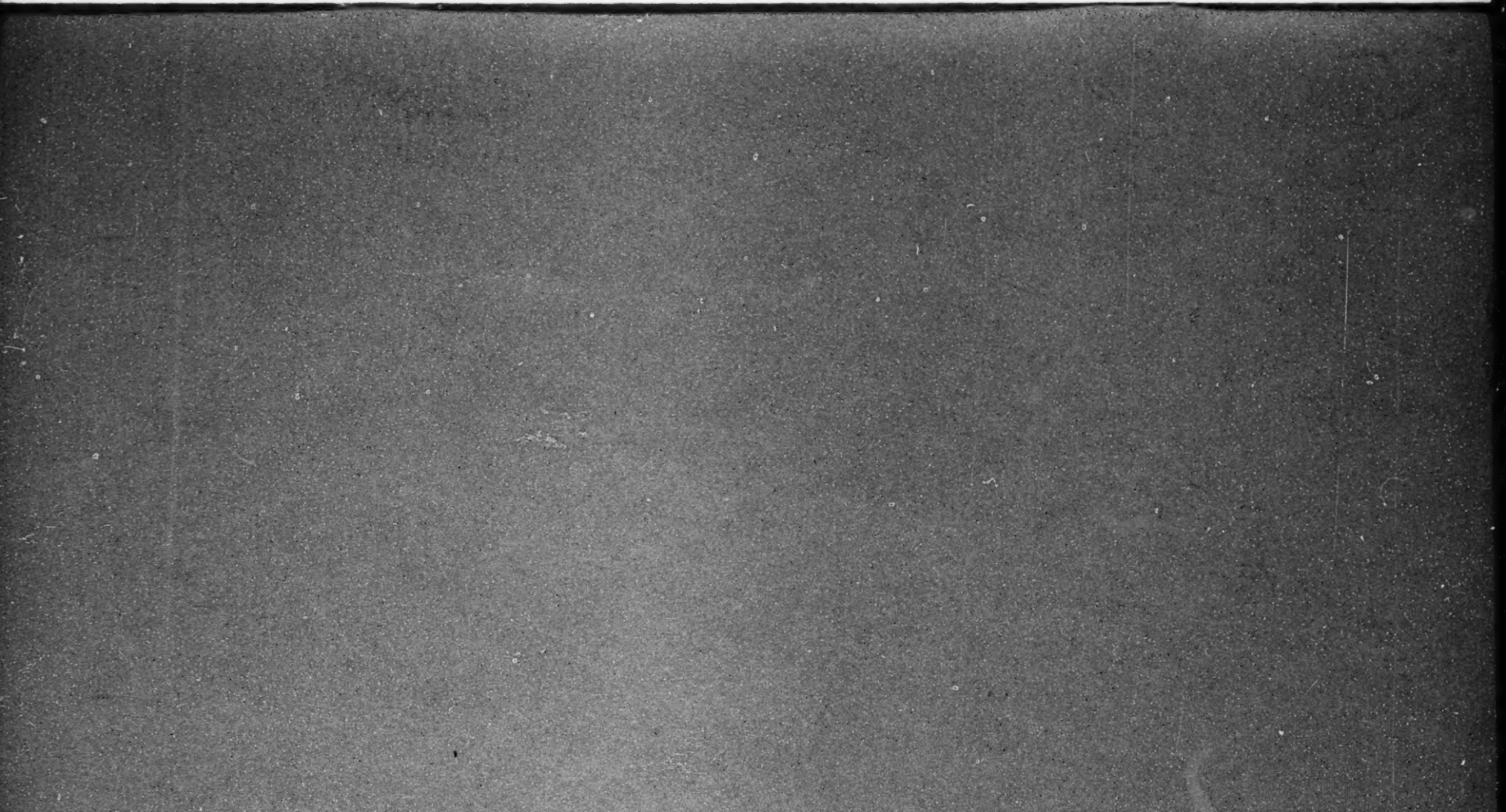

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SUPPLEMENTAL BRIEF FOR PETITIONER

We agree with much of what the Solicitor General has said about this case.[1] Most importantly, we agree that "[w]hether the unilateral refusal to sell or license intellectual property protected by a patent or copyright may constitute a violation of Section 2 of the Sherman Antitrust Act * * * is an important issue that may well warrant this Court's resolution * * *." U.S. Br. 8. We likewise agree that "[t]he court of appeals in this case rejected the Ninth Circuit's decision in [*Image Technical Services, Inc.* v. *Eastman Kodak Co.*, 125 F.3d 1195 (9th Cir. 1997), *cert. denied*, 523 U.S. 1094 (1998)] * * *." U.S. Br. 16. We agree that neither the Patent

[1] Pursuant to S. Ct. Rule 15.8, petitioner CSU, L.L.C. submits this supplemental brief to respond to the new arguments made by the Solicitor General in response to the Court's invitation.

Act nor the Sherman Act should be construed "as making patent holders immune from liability under Section 2" even when they have "not engag[ed] in an express tying arrangement." *Id.* at 14, 15. And we agree that Section 271(d) of the Patent Act "does not address antitrust liability for monopolization or attempted monopolization by refusal to deal." *Id.* at 14 n.6.

Yet like an O. Henry story, the Solicitor General's brief ends with a bizarre twist. Rather than advocating that the Court resolve the important issue, the Solicitor General says that this case is not the appropriate vehicle for doing so solely because, in his view, "the Federal Circuit's opinion is susceptible of varying interpretations." *Id.* at 11. As shown below, the sole predicate for the Solicitor General's position—his anomalous interpretation of the Federal Circuit's opinion—is incorrect. As the Court can conclude for itself, the Federal Circuit did in fact grant absolute antitrust immunity for unilateral refusals to sell or license material subject to valid intellectual property rights—a holding that directly conflicts with those of other circuits.

The Solicitor General's misreading of the opinion below is the only basis for his position that this case is not the appropriate vehicle to address the concededly important question presented. Accordingly, the Court should reject the Solicitor General's suggestion that the confusion in the lower courts be allowed to persist even longer.

1. It is noteworthy that the Solicitor General's brief does not purport to represent the views of the Federal Trade Commission, one of the two federal agencies charged with enforcing the Nation's antitrust laws. *See* 15 U.S.C. § 45; *FTC* v. *Cement Institute*, 333 U.S. 683, 691-692 (1948) (FTC empowered to enforce Sherman Act). As we have noted, the FTC has taken enforcement positions that are at odds with the holding of the Federal Circuit, and its Chairman has specifically criticized that holding. *See* Pet. 17-18, 28. In the

past when this Court has asked for the views of the United States on issues affecting antitrust enforcement, the FTC has joined the briefs filed by the Solicitor General when it has agreed with them. *See, e.g., Armstrong Surgical Ctr., Inc.* v. *Armstrong County Mem'l Hosp.*, No. 99-905; *Campos* v. *Ticketmaster Corp.*, No. 98-127; *Palmer* v. *BRG of Ga., Inc.*, No. 89-1667; *Motor Vehicle Mfrs. Ass'n of the United States, Inc.* v. *Abrams*, No. 89-2026. Yet the FTC is conspicuously absent from the brief filed by the Solicitor General in response to the Court's invitation in this case.

While we do not know the precise nature of the disagreement between the FTC and the Department of Justice, the conflict between the Nation's antitrust enforcers is yet another factor supporting certiorari. Whatever confusion exists within the Federal Government can only add to the confusion that exists among the private entities that must determine how to comply with the Nation's antitrust laws. Contrary to the Solicitor General's view, the solution is not to prolong the confusion indefinitely. The solution is for this Court to grant certiorari in order to bring uniformity to the law.

It is plain, however, that the disagreement within the Government is *not* over whether valid intellectual property rights immunize from antitrust scrutiny all unilateral refusals to deal. To the contrary, the Solicitor General confirms our understanding that such an absolute immunity rule conflicts with the policies of the Federal Government. As the Solicitor General explains, the United States "would not be prepared to endorse" a holding that "a refusal to sell or license property protected by a valid patent may never be the basis of an antitrust violation except in the circumstances of an illegal tying arrangement." U.S. Br. 11. Indeed, to endorse such a position would be to repudiate the guidelines and enforcement positions of both the Department of Justice and the

FTC. *See* Pet. 17-18.[2] And even though the Solicitor General tepidly suggests denial of the petition, he does not base that position on any view that the decision below was correct. Despite its revisionist reading of the Federal Circuit decision, the Solicitor General's brief *nowhere* states that this case was correctly decided.

2. Rather than confronting the flaws of the Federal Circuit's decision, the Solicitor General chooses to rewrite it. He posits that the court announced an additional, unstated, exception to antitrust immunity, other than the three explicitly stated in its opinion. *See* U.S. Br. 11, 14-16. A plain reading of the opinion reveals that this is not so. The central holding could hardly have been clearer:

> In the absence of any indication of illegal tying, fraud in the Patent and Trademark Office, or sham litigation, the patent holder may enforce the statutory right to exclude others from making, using, or selling the claimed invention free from liability under the antitrust laws. [Pet. App. 10a.][3]

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[2] Only days before filing its January 19, 2001 brief in this case, the Department of Justice reiterated in the *Microsoft* litigation its view that the proper analysis of intellectual property justifications raised in response to antitrust claims is the rebuttable presumption adopted by the First and Ninth Circuits, not the rule adopted by the Federal Circuit here. *See* Brief for Appellees United States and the State Plaintiffs at 72, *United States* v. *Microsoft Corp.*, Nos. 00-5212, 00-5213 (D.C. Cir. filed Jan. 12, 2001) (rejecting Microsoft's reliance on the Federal Circuit's decision in this case, and relying instead on *Image Technical Services* and *Data General Corp.* v. *Grumman Systems Support Corp.*, 36 F.3d 1147, 1187 & n.64 (1st Cir. 1994)).

[3] Only one of these exceptions—tying—relates to primary conduct of the patent holder akin to the refusal to deal at issue here. Fraud in procurement simply invalidates a patent, and sham litigation involves only collateral efforts to enforce a patent.

Thus, the court held that absent one of these three elements, a patent holder may refuse to sell or license its patent "free from liability under the antitrust laws."

But even if this holding were not clear, the court's application of its test leaves no doubt about the breadth of the immunity it bestowed. As the court held, "the infringement defendant * * * bears the burden to show that one of these exceptional situations exists and, in the absence of such proof, we will not inquire into the patentee's motivations for asserting his statutory right to exclude." *Id.* The court then continued that "[e]ven in cases where the infringement defendant has met this burden, which CSU has not, he must then also prove the elements of the Sherman Act violation." *Id.* Thus, the court held that because CSU did not meet its threshold burden of showing that one of the three "exceptional situations" existed, CSU would not be permitted to prove the elements of a Sherman Act violation. The Solicitor General (U.S. Br. 11) focuses on the Federal Circuit's statement that antitrust liability does not exist where the anticompetitive effect of a refusal to deal "is not illegally extended beyond the statutory patent grant." Pet. App. 10a. The court's opinion, however, leaves no doubt that this statement reflected the court's view of the scope of its immunity doctrine, not an additional exception to it.

In fact, the only way the Federal Circuit (like the District Court before it) could find against CSU was to endorse Xerox's absolute immunity position. In *Eastman Kodak Co.* v. *Image Technical Services, Inc.*, 504 U.S. 451 (1992), this Court considered the *same* conduct in the *same* industry and held that the plaintiff was entitled to present its Section 2 antitrust claim to a jury. As we have noted, the case for liability is even *stronger* here, because Xerox (unlike Kodak) has a monopoly over the *entire* equipment market, not just the parts for its own machines, and because Xerox has admitted that intellectual property protection had nothing to do with its parts policy. *See* Pet. 20 & n.9. Accordingly,

CSU's claim would have to survive summary judgment under *Kodak* unless, as the Federal Circuit wrongly held, Xerox's patents and copyrights immunized it against the liability recognized by this Court.

But it is not just CSU that can read what the Federal Circuit wrote. As one court has held, the Federal Circuit's decision in this case "removes any remaining ambiguity" about the Federal Circuit's view of the law. *Intergraph Corp.* v. *Intel Corp.*, 88 F. Supp. 2d 1288, 1293 (N.D. Ala. 2000). *Intergraph* involved claims based in part on the defendant's refusal to provide what it contended was protected intellectual property. After citing the Federal Circuit's central holding listing the three exceptions to its immunity rule, the court dismissed those claims because "[the plaintiff] ha[d] not claimed that [the defendant] is guilty of the disqualifying factors set out in *Independent Service Organizations*." *Id.*

Xerox has the same understanding of the Federal Circuit's holding. *See* Opp. 8 ("[T]he Federal Circuit held that absent tying, sham litigation, or fraud in the Patent and Trademark Office, a patentee acting unilaterally may 'enforce the statutory right to exclude others from making, using, or selling the claimed invention free from liability under the antitrust laws.' ") (quoting Pet. App. 10a). And commentators on both sides of the issue, including practicing lawyers, have likewise been able to understand what the Federal Circuit so plainly held.[4]

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[4] *See, e.g.*, Tom Melsheimer, *Cloudy Antitrust Issues*, 16 Tex. Lawyer 74, 74 (2000) ("In holding that a patent holder's powers are limited only by tying, fraud on the PTO or sham litigation, the Federal Circuit effectively closed the door on the notion that intellectual property can be an essential facility. This potentially has tremendous ramifications for the new economy * * *."); Eugene Crew, *Microsoft's Copyright Defense*, 606 PLI/Pat. 233, 242-243 (2000) (the Federal Circuit "held that a monopolist's refusal to sell or license patented or copyrighted products to a competitor is immune from antitrust scrutiny regardless of the

As these commentators have recognized, the Federal Circuit clearly held that a unilateral refusal to sell or license material subject to valid intellectual property rights is absolutely immunized from antitrust scrutiny. Given that this rule squarely conflicts with Federal Government policies and enforcement actions, it is not surprising that the Solicitor General would want the decision to say something it does not. The holding of the Federal Circuit, however, was unambiguous. Thus, because the Solicitor General does not suggest any other reason why this case is not an appropriate vehicle for presenting what even he notes is an "important issue" with "broad potential implications," U.S. Br. 8, the Court should grant the petition.

3. Consistent with its misreading of the Federal Circuit's decision, the Solicitor General's brief strains to downplay the conflict among the circuits. In a position that not even Xerox has espoused, the Solicitor General argues that "it is not clear how this case would have been decided in the Ninth Circuit." U.S. Br. 9. In fact, it is clear how this case would have been decided in the Ninth Circuit, because the Ninth Circuit has already decided it. In *Image Technical Services*, the Ninth Circuit considered the same claim based on the same material facts in the same industry, and reached a holding diametri-

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justification (or lack thereof) proffered by it for its actions," a decision that "is surely wrong"); Wynne S. Carvill, *Antitrust Issues in Management of Intellectual Property*, 606 PLI/Pat. 55, 96 (2000) (the Federal Circuit "held that a patentee has the right to refuse to deal unless 'the asserted patent was obtained through knowing and willful fraud' ") (quoting Pet. App. 7a); Patrick Lynch, *Sherman Act § 2 Offenses*, 1180 PLI/Corp. 303, 323 (2000) ("According to the Federal Circuit, a refusal to sell a patented article or license a patent is privileged unless the patent was obtained by fraud."); Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law* 229 (2000 Supp.) (the Federal Circuit held that "[t]he simple refusal to license a patent, which includes the refusal to sell a patented object, is not an antitrust violation").

cally opposite from that reached by the Federal Circuit. In discerning whether there is a conflict, the Court should credit the Federal Circuit's own words, rather than the Solicitor General's wishful thinking. And the Federal Circuit clearly held that "[w]e decline to follow *Image Technical Services*." Pet. App. 10a. Indeed, even the Solicitor General recognizes that "[t]he court of appeals in this case rejected the Ninth Circuit's decision * * *." U.S. Br. 16. *See also id.* at 6 ("[t]he Federal Circuit disagreed with the Ninth Circuit's approach"). On this point, too, commentators have had no difficulty discerning the stark circuit conflict.[5]

The Solicitor General nevertheless attempts to draw a distinction between this case and *Image Technical Services* based on the Ninth Circuit's reliance on Kodak's policy of denying both patented and unpatented parts to independent service organizations ("ISOs"). *See* U.S. Br. 17-18. Yet this factor supports, rather than alleviates, the existence of the conflict. For just as Kodak did in *Image Technical Services*, Xerox denied CSU and other ISOs both patented *and* unpatented parts, thereby confirming that its policy had nothing to do with the protection of intellectual property. *See* Pet. 5-6. Given the need for both patented and unpatented parts in order to compete in the service market, CSU cannot success-

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[5] *See, e.g.*, Areeda & Hovenkamp, *supra*, at 227 ("The Federal Circuit * * * expressly disagree[d] with the Ninth Circuit"); James B. Kobak, *Antitrust Treatment of Refusals to License Intellectual Property*, 606 PLI/Pat. 447, 469 (2000) ("The Federal Circuit has rejected the [*Image Technical Services*] holding."); Crew, *supra*, at 243 ("While the courts in *Data General* and [*Image Technical Services*] sought to reconcile the potential conflict between antitrust and intellectual property law with shifting presumptions and burdens of proof, *Xerox* rejected that balancing process to hold that intellectual property law trumps antitrust law (even though both federal statutes are of equal dignity) whenever a monopolist's refusal to deal is involved."); Note, 13 Software L. Bull. 92 (2000) ("The Federal Circuit declined to follow the Ninth Circuit's rule * * *.").

fully compete without access to critical patented parts. Pet. App. 16a. But *Image Technical Services* likewise turned on the antitrust injury caused by Kodak's denial of patented parts. Indeed, if that case were simply about unpatented parts, the court's extended discussion of Kodak's patent defense would have been wholly unnecessary. In *Image Technical Services*, the court relied on Kodak's policy of denying both patented and unpatented parts as evidence that Kodak lacked a legitimate business justification for its actions based on protection of its intellectual property. The same is true here. Yet the Federal Circuit's immunity rule prevented CSU from demonstrating this or any other element of its antitrust claim.

4. Finally, the Solicitor General does not dispute that the divergent approaches among the circuits will have serious practical consequences for businesses seeking to understand the law in this important area. *See* Pet. 15-19. To the contrary, he notes that the question presented "has * * * broad potential implications." U.S. Br. 8. The Solicitor General, however, is wrong to suggest that anyone would benefit from further "percolation" of the issue. As we have noted—and as neither Xerox nor the Solicitor General disputes—because of the unique claim-based jurisdiction of the Federal Circuit, the Sherman Act will now be interpreted one way in cases with patent claims or counterclaims, another way in cases without such claims, and potentially different ways in the same case if both patents and copyrights are involved. The conflict also creates incentives for parties to raise questionable patent claims, or to refuse to settle others, in order to manufacture Federal Circuit jurisdiction. *See* Pet. 16. And the need for this Court's intervention here is particularly acute given the Federal Circuit's increasing—and questionable—expansion of its law-declaring authority to include antitrust claims not within its statutory jurisdiction. *See* Br. of Amicus Curiae Service Industry Ass'n at 5-10.

The myriad business transactions affected by the question presented in this case demand nationwide uniformity in the law. It would be intolerable to any businessperson—particularly one considering investing in or expanding an ISO or other service business—for that uniformity to await what the Solicitor General would consider sufficient percolation. The conflict exists now. It is clear and direct. The issue is concededly one of national importance. It was directly addressed by both the District Court and the Federal Circuit. And there are no impediments to this Court's reaching the issue. The petition should therefore be granted.

CONCLUSION

For the foregoing reasons, and those set forth in the petition and the reply, the petition should be granted and the judgment below reversed.

Respectfully submitted,

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